

**CITY OF SHREVEPORT  
INTERNAL AUDIT OFFICE  
INVESTIGATIVE REPORT IR 650001-05**

**DATE:** June 8, 2001

**TO:** Mike Strong, Director  
Department of Operational Services

**SUBJECT:** ALLEGED MISAPPROPRIATION OF INVENTORY PURCHASES  
AT FLEET SERVICES

**INTRODUCTION**

The Internal Audit Office has completed an investigation regarding alleged misappropriation of inventory purchases at the Department of Operational Services, Fleet Services Division. Our examination was conducted in accordance with applicable standards as defined in Operating Instruction A.55 of the Internal Audit Office Operating Instructions Manual, which include, but are not limited to: examination of books and records; voluntary interviews of appropriate personnel; and other such evidence-gathering procedures as necessary under the circumstances.

We appreciate the assistance and support provided by DOS (Department of Operational Services) management during this investigation.

**BACKGROUND**

The Fleet Services Division within DOS operates three warehouses (one at each of its shops/garages) to oversee all parts and supply functions for the division. In December 2000, we received evidence from DOS management that a deceased, former stock clerk had allegedly misappropriated inventory purchases from one of the warehouses. According to management, the misappropriation was suspected after the former employee's death when a vendor presented three invoices for payment of parts for which there was no supporting evidence that the division had received the items.

Our purpose in undertaking this investigation was to: (1) determine if a fraud had occurred; (2) estimate the possible amount of loss the City incurred due to the alleged fraud; and (3) devise appropriate internal controls which would prevent and/or detect the occurrence of fraudulent activities of this nature in the future.

**RESULTS**

The following significant facts were noted:

- Our review revealed that over a three-year period (from 1998-2000), inventory purchased totaling approximately \$27,000 could not be accounted for at the Fleet Services Division.
- A deceased, former stock clerk was transferred from the medium equipment shop to the heavy equipment shop during 1998. The stock clerk's duties at the heavy equipment shop involved requesting and ordering parts; completing and approving the requisition form for parts less than \$500; picking up parts from vendors; receiving delivered parts; and posting the parts to Fleet Services' perpetual inventory system, referred to as FASTER.
- To properly account for all inventory, established procedures for Fleet Services require that all parts purchased from vendors must be posted to the FASTER automated inventory system. When the inventory is bought, it should be charged in FASTER - either directly to a work order if it is placed on a vehicle, or to a purchase order if the part is placed in the warehouse stock. Evidence of FASTER posting by an employee is noted by signature on the face of the invoice.
- Established procedures also require that all payments for purchases must be supported by a properly completed and approved requisition and invoice. When this documentation is received by the Fleet Services Administration Division, payments to vendors can be processed.
- Our review indicated that the former stock clerk consistently purchased parts that were not properly entered into FASTER; hence, never properly accounted for by Fleet Services. We noted that during the period from 1998-2000, 59 invoices valued at approximately \$27,000 indicated by signature that the parts were posted to the FASTER system by the stock clerk. However, after comparing the actual work order or purchase order from FASTER to the corresponding invoices, we could find no evidence that the parts were entered into the system. Consequently, it appears that these parts were misappropriated. We noted that the majority of the instances cited were invoices that were slightly under the employee's requisition authorization level of \$500 and the parts and supplies in question were purchased from primarily one vendor.
- Based on discussion with employees, it appears that when the aforementioned parts were purchased, the requisitions (completed and approved by the stock clerk), along with the invoices (indicating the parts were received and posted by the stock clerk), were presented to Administration Division employees for payment by the former stock clerk. This process circumvented upper management review and/or oversight of these purchases. The request for payment contained all documentation required for processing; therefore, the payments were processed by the Administration Division.

## **CONCLUSION**

Insufficient internal controls allowed this fraud to continue undetected for several years. Specifically:

- The stock clerk's responsibilities involved an inadequate segregation of duties whereby he could order, receive, and also post the parts to inventory records.
- In addition, there was no effective supervisory review to ensure that parts ordered were actually needed. In many cases, one employee initiated and approved the requisition with no supervisory review or approval of the requisition.

Because concealment and trickery are elements of fraud, no assurance can be given that any other employees were party to this or any other fraud. However, based on the results of our examination, since the stock clerk's position is a key part of the internal control system at the warehouse, manipulation of controls by the stock clerk allowed this misappropriation to go undetected by DOS management. Also, if the control environment is not improved, future irregularities could occur and remain undetected by upper management.

Therefore, we recommend the following:

- Ideally, in each of the warehouses, the duties of ordering, approving, receiving, and posting parts to the FASTER system should be segregated among at least two employees.
- Alternatively, we acknowledge that the small staff in at least one of the shops limits the effectiveness of this internal control. However, we recommend that the warehouse supervisor (who is located at the medium equipment shop) review all invoices from each of the shops to ensure that all parts have been properly posted to and accounted for in the FASTER system. The reviewer should initial the face of each invoice as evidence of this review.
- In addition, management should continue established controls such as cyclical counts and annual year-end inventory counts to ensure proper accounting over inventory.

We also suggest that upper management make a determination as to whether any of the documented loss can be recovered under the City's Employee Blanket Bond.

**Management Plan of Action:** I and my staff have discussed your recommendations to resolve these problems and agree in full with all of them.

1. The duties of ordering, approving, receiving, and posting parts to our FASTER system have now been segregated among at least two employees.
2. The Warehouse Supervisor located at the Medium Equipment Shop now receives all invoices from each of our three shops to ensure that all parts have been properly posted to and accounted for in the FASTER system. That supervisor is now required to initial the face of each invoice as you suggested to indicate evidence of this review.
3. Fleet Services management will continue its weekly, random parts inventory via use of the FASTER system, as well as continue to participate in the annual year-end inventory count as you suggested.

4. Once finalized, I will review this audit with our City Attorney and/or Risk Manager to determine if any of Fleet Services' documented loss can be recovered under the City Employee's Blanket Bond.

Prepared/Approved by:

Leanis L. Graham, CPA, CIA  
City Internal Auditor

LG:jm

c: Mayor  
CAO  
City Attorney  
City Council  
Clerk of Council  
External Auditor